Sequence and application of adjustments on the Comp Grid

This is a very important concept and it is crucial that you understand the principle and the reasoning behind the principle.

First, adjustments are done in two segments. The first segment is for "transactional" adjustments and the second segment is for "property characteristics" adjustments.

Now the transactional adjustments are intended to remove those elements that had to do with the "people" and "times" in a transaction. The property characteristics adjustments have to do with the "property" elements, not related to the "people" or "times" of the transaction.

The transactional adjustments are designed to remove those elements in the transaction that make it atypical for the current market as of the effective date. The five elements considered as transactional adjustments are:

1. Real Property Rights
2. Financing terms
3. Conditions of sale
4. Expenditures made immediately after purchase
5. Market conditions - Time

These are to be *calculated and applied in this sequence*. So a sale price would be adjusted first for property rights and an adjusted price determined. Then financing terms adjustment calculated and applied to the previously adjusted price. Then conditions of sale calculated and applied to the price that was determined after the financing adjustment. The same would be done in sequence for the expenditures and market conditions. *Each adjustment is calculated based on the just previously adjusted price.*

When properly applied, in sequence, the result of the transactional adjustments will (in theory) be the price that would "typically" have occurred if the unique things dealing with the "people" and the "time" of the transaction are removed.

Now, after the transaction is adjusted for the "people" and "time" issues are made, the adjusted sale price of the comp is the price that would have occurred if the transaction had closed on the effective date of the appraisal with all things "normal."

Next the property characteristics adjustments are applied. They can be varied based on the actual property and comps involved but would typically include things such as:

Location

Physical Characteristics - such things as . . .
- size
- zoning
- Utilities availability
- Topography
- Access

Economic Characteristics - such things as . . .
- lease type
- lease terms

Use

Non-realty components

Now *here is the reason* that these adjustments are *not applied sequentially*. Each of these adjustments affects the price *independently* from the other adjustments. So whether or not there is a size adjustment required does not affect the zoning adjustment. Whether or not there is a topography adjustment required does not affect the amount of impact that the utilities adjustment would have. Therefore, each of these adjustments should be applied independently to the price that resulted from the transactional adjustments. Since this is the case, the order of the adjustments does not matter. Also, the amount of one adjustment does not affect the amount of the other adjustments. Since this is the case, if you calculated the adjusted price after each adjustment (applied to the transactional adjusted price) or whether you totaled the dollar or percentage adjustments and applied them one time at the bottom of the column, would make no difference mathematically.

So, the bottom line is that the transactional adjustments are to be applied in the same order all the time, applied in sequence with an adjusted price resulting after each adjustment. That then determines what the price would be when all the "people" and "time" variables are removed from the transaction.

Then the property adjustments are applied, independently, to the transactional adjusted price, and can totaled and applied one time at the bottom of the column.

This is the standard procedure and produces consistently reliable adjusted prices when compared to a subject property.

Below is an example of an adjustment grid illustrating the **Intangible Adjustments** performed sequentially, then the **Tangible Adjustments** all totaled together and factored on to the result of the intangible adjustments.

Sample Adjustment Grid Showing Sequence of Adjustments			
	Adjustment%	Adjustment $$	Dollars
Gross Sale Price			$ 100,000
Comps Size in Square Feet			5,000
Gross Sale Price / SF			$ 20.00
Intangible Adjustments			
Real Property Rights	0.00%	$ -	$ 20.00
Financing terms	0.00%	$ -	$ 20.00
Conditions of sale	-3.00%	$ (0.60)	$ 19.40
Expenditures made immediately after purchase	0.00%	$ -	$ 19.40
Market conditions - Time	5.00%	$ 0.97	$ 20.37
Adjusted value after Intangible Adjustments			$ 20.37
Tangible Adjustments			
Location	-2.00%	$ (0.41)	
Size	5.00%	$ 1.02	
Access	2.00%	$ 0.41	
Topgraphy	1.00%	$ 0.20	
Total Tangible Adjustments			$ 1.22
Final Adjusted Value			**$ 21.59**
Subject Property Size SF			6,400
Indicated Value of Subject in reconciliation			**$ 138,190**